CHAPTER III

USE OF THE TAX ADVANTAGES

Participation in pensions has leveled off at a point where about half of the work force is covered at any one time. Those with pensions are most likely to be older, better paid, and working under union contracts. Large employers in government and manufacturing are more likely to provide pensions than small employers in retail trade and services. When IRA deductions were available to all workers, less than 20 percent contributed to them in any one year, and those who did were on the average even older and higher paid than pension participants.

The participation patterns among today's workers suggest that most of today's younger workers will participate in tax-advantaged plans or accounts sometime during their work careers and will receive payments from them in retirement. CBO projects that the tax advantages are likely to raise the retirement incomes of elderly singles by 14 percent on average, and of retired couples by 21 percent on average. These gains will be concentrated on higher-income people and, even more so, on those who work most of their careers in a single plan. The gain from the tax advantages for workers who are covered by one plan for 20 or more years will average 28 percent compared with the gain for shorter-term workers of about 8 percent.

PARTICIPATION AMONG TODAY'S WORKERS

In 1982 and 1983, roughly 57 million people were accruing benefits--that is, participating--in a pension plan. 1/ Another 17 million had IRAs and 2

1. The precise number is known only roughly by interpolating between two data sources that give widely different numbers. The pension supplement to the Census Bureau's May 1983 Current Population Survey (CPS) indicates that 45.8 million employed people were participating in a pension at the time of the survey. Of this total, 30.0 million worked for private employers. Separately, Department of Labor tabulations of Forms 5500 and 5500C submitted by private-plan administrators for plan years beginning in 1982 suggest about 53.2 million active participants among private-sector plans. (continued)

million were contributing to 401(k) plans. Proportionately about half of all employees participate in pensions while under 20 percent have an IRA. 2/ Among all employees age 14 and older, 46 percent participate in pensions and 17 percent in IRAs. Among full-time employees, 54 percent participate in pensions and 19 percent in IRAs. The remainder of the discussion in this section focuses on participation among full-time employees, although the patterns apply as well to all employees. 3/ Special attention is paid to the comparative use of pensions and IRAs. One subsection considers the extent of spousal participation, and a final subsection documents recent trends in the use of 401(k) plans.

Pension Participation of Full-Time Employees

Older and higher-income employees participate more than others in pensions, according to the Census Bureau's 1983 Current Population Survey (CPS). Among those under age 25, just over a quarter respond that they par-

1. (continued)
The 23.2 million discrepancy in private-plan participants arises from the time difference and from inadequacies in each source. Surveys tend to give too low a number because some people do not know if they are participating; 6.8 million employed people did not know according to the 1983 CPS. Furthermore, the survey only included employed people, while recently laid-off individuals normally are still active in their plans. On the other hand, the forms submitted by the plans double-count participants when an employer has more than one plan or a person is covered in more than one job. Analysts at the Department of Labor have estimated that the actual number of people participating in plans of private employers was probably around 37.5 million in 1983. That figure is 25 percent above the level indicated by the CPS. Applying the same percentage adjustment to CPS-reported public-plan participants gives 57.2 million total participants.

2. Participation rates are based on the pension supplement to the Census Bureau's May 1983 CPS, which is is the first detailed pension survey of the general population since the pension supplement to the May 1979 CPS. The 1983 pension supplement was jointly funded by the Department of Health and Human Services and the Employee Benefits Research Institute. Extensive tabulations of this survey have been compiled by Emily F. Andrews, *The Changing Profiles of Pensions in America* (Washington, D.C.: Employee Benefits Research Institute, 1985). Andrews' tabulations use different measures of participation than those reported here.

3. The percentage participating among full-time employees has been used in analyses of the 1972 and 1979 CPS pension supplements. See Walter W. Kolodrubetz and Donald M. Landay, "Coverage and Vesting of Full-Time Employees Under Private Retirement Plans," *Social Security Bulletin*, vol. 36 (November 1973), pp. 20-36; and Daniel J. Beller, "Coverage Patterns of Full-Time Employees Under Private Retirement Plans," *Social Security Bulletin*, vol. 44 (July 1981), pp. 3-11.

TABLE 7. PENSION PARTICIPATION OF FULL-TIME EMPLOYEES, BY AGE GROUP

Age Group	Number of Employees (millions)	Percent Participating	Percent Not Participating	Percent Who Do Not Know
All Employees	74.6	54	40	6
14 - 24	11.8	26	61	13
25 - 34	23.6	52	41	7
35 - 44	17.2	63	32	5
45 - 54	12.4	65	31	4
55 - 64	8.6	66	31	3
65 and over	1.0	39	56	5

SOURCE: Congressional Budget Office tabulation from the May 1983 Current Population Survey of the Bureau of the Census.

ticipate, and another 13 percent do not know their status (Table 7). The percentage participating rises to a plateau of 63 percent to 66 percent for employees age 35 to 64, and the percentage not knowing declines to 3 percent to 5 percent for the same group.

When earnings are taken into account, participation varies to an even greater extent. Within age groups, participation rises sharply from the low- to middle-earnings levels and then stabilizes. Among employees age 25 to 34, 24 percent with earnings below $10,000 report pension participation; the rate rises to 60 percent for those with earnings between $15,000 and $20,000, and levels off near 70 percent for those with incomes above $20,000. Pension participation rises in a similar progression among full-time employees age 45 to 64 (see Table 8). 4/

4. Two Table 7 age groups--45 to 54 and 55 to 64--are combined to retain narrow ranges of statistical precision when age groups are subdivided among earnings classes. Because the separate age groups have similar pension participation rates and similar distributions by income, little is lost from their combination. The 25 to 34 group, containing a large portion of the "baby boom" generation, is large enough to be subdivided with little loss in statistical precision.

TABLE 8. PENSION PARTICIPATION OF FULL TIME EMPLOYEES, BY AGE AND EARNINGS GROUPS

Earnings Group (thousands of dollars)	Number of Employees (millions)	Percent Partici-pating	Percent Not Partici-pating	Percent Who Do Not Know
All Employees	73.3	54	39	6
		Ages 25-34		
Under 10	3.9	24	63	13
10 - 15	5.8	47	45	8
15 - 20	4.7	60	35	5
20 - 25	3.8	68	28	4
25 - 35	2.8	67	29	4
Over 35	1.0	71	25	4
All	22.0	51	41	7
		Ages 45-64		
Under 10	3.1	34	59	7
10 - 15	4.4	57	38	4
15 - 20	3.6	71	26	3
20 - 25	3.1	80	18	2
25 - 35	2.8	82	16	2
Over 35	2.1	85	13	2
All	19.2	63	30	4

SOURCE: Congressional Budget Office tabulation from the May 1983 Current Population Survey of the Bureau of the Census.

NOTE: Table excludes those not reporting their earnings.

It is not surprising to find that reported pension participation rises both with age and income. Older persons are more likely to consider the availability of a pension in selecting a job and continuing in it. Furthermore, because they change jobs less frequently, they are more likely to have been on a job long enough to participate. Higher-earning employees are also more likely to seek out or bargain for pension benefits. 5/ They are apt to do so because their tax advantages are larger, and because Social Security replaces a smaller share of their earnings. Finally, because older and higher-earning people tend to be more interested in their retirement benefits, they are more likely to be aware of their participation in pension plans.

Participation by Industry. Pension participation also differs by characteristics of employment--by industry, firm size, and union coverage. Among industries, one of the highest participation rates is in the public sector. The 1983 CPS found 81 percent of public sector employees participating in pensions compared with 47 percent for the entire private sector (see Table 9). In the private sector, the publicly regulated communications and utilities industries had the same participation rate as the public sector. Other industries with relatively high participation rates are mining (69 percent) and durable manufacturing (67 percent). Relatively low participation rates are found in retailing (29 percent), construction (32 percent), and services (36 percent).

Pension participation among industries may vary for several reasons, including prominently the size of the firm and the representation of employees by a union contract. Workers at firms with fewer than 100 employees had a participation rate of 32 percent in comparison to a 71

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5. The statement applies more accurately to total family income than to an individual's earnings; however, data presented from the CPS have been tabulated by earnings. One reason is that income from nonearnings sources is seriously underreported in the CPS; and among full-time employees, earnings are highly correlated with total income. Another reason is that an annualized earnings rate can be constructed from normal weekly earnings as of May 1983, whereas total family income is available only for 1982. Ascribing 1982 income to May 1983 employment could have a distorting effect, particularly because of the large number of people who went back to full-time work during the rapid economic recovery in early 1983.

   Total family income will be used below to classify IRA contributors because this information is available from tabulations of tax returns. Tax returns are subject to much less underreporting of nonearnings income. Furthermore, total family income is most likely more relevant than earnings in a family's decision to open an IRA. The case is not so clear with a pension, which must be offered by the employer.

percent rate at larger firms (see Table 10). Size is especially important in defined benefit plans because of their high fixed administrative costs and the investment risk of guaranteeing benefits. Large firms also appear to use the incentives of defined benefit plans to encourage employees to remain when young and leave when old. As Chapter II pointed out, large plans are more likely to be defined benefit plans, and most employees are covered by defined benefit plans.

TABLE 9. PENSION PARTICIPATION OF FULL-TIME EMPLOYEES, BY INDUSTRY

Industry	Numbers of Employees (millions)	Percent Partici-pating	Percent Not Partici-pating	Percent Who Do Not Know
All Industries	74.6	54	40	6
Public Sector	13.7	81	15	4
Private Sector	60.9	47	46	7
Agriculture	1.2	8	83	9
Mining	0.9	69	28	3
Construction	4.0	32	61	7
Manufacturing				
Durables	10.8	67	27	6
Nondurables	7.5	59	34	7
Transportation	2.3	53	42	6
Communication and Public Utilities	2.4	81	16	4
Trade				
Wholesale	3.8	47	46	7
Retail	9.4	29	63	9
Finance, Insurance, and Real Estate	4.9	54	40	6
Miscellaneous Services	13.9	36	57	8

SOURCE: Congressional Budget Office tabulation from the May 1983 Current Population Survey of the Bureau of the Census.

NOTE: Table excludes those not reporting their industry.

TABLE 10. PENSION PARTICIPATION OF PRIVATE-SECTOR, FULL-TIME EMPLOYEES, BY UNION CONTRACT STATUS AND NUMBER OF EMPLOYEES PER ESTABLISHMENT

Establishment Group	Number of Employees (millions)	Percent Partici-pating	Percent Not Partic-pating	Percent Who Do Not Know
		All Employees		
All Establishments	56.8	48	46	7
Fewer Than 100 Employees	34.4	32	61	7
100 or More Employees	22.4	71	23	5
		Employees Under Union Contracts		
All Establishments	11.8	77	17	5
Fewer than 100 Employees	4.7	71	23	6
100 or More Employees	7.1	82	13	5
		Employees Without Contracts		
All Establishments	43.6	40	54	7
Fewer than 100 Employees	28.9	26	67	7
100 or More Employees	14.7	67	28	5

SOURCE: Congressional Budget Office tabulation from the May 1983 Current Population Survey of the Bureau of the Census.

NOTE: Table excludes those not reporting size or union status.

Employee representation by a union contract is especially important at small firms. Among workers at firms with fewer than 100 employees, those covered by a union contract had a participation rate of 71 percent compared with only 26 percent at nonunion firms. Union coverage is associated with higher participation at large firms as well. At large firms the participation rate among union-covered employees was 82 percent compared with 67 percent among those not covered by a union contract.

One explanation for the prevalence of pensions among union employees is that pensions and unions are both manifestations of the long-term employment commitment some firms and workers seek. Where turnover is high, pensions do not make sense, and unionization is difficult. In some cases, workers have a long-term commitment to the industry or trade even though they shift jobs frequently among a number of small firms. Mining and construction are examples in which pensions make sense once the industry has been unionized; then a pension can be based on long-term employment in the industry, as happens with multiemployer plans. Multiemployer plans also achieve the economies of large-scale operation that elude most small employers. The prevalence of pensions among small unionized firms is almost certainly due to multiemployer plans. The prevalence of pensions among unionized workers generally may reflect the role of union bargaining in achieving better wage and benefit compensation. Additionally, union bargaining may be more influenced by long-time members who, because they are older, have greater interest in pensions. Pension increases in defined benefit plans can be especially attractive to older employees because they get the full benefit of the pension increase at retirement without experiencing any concomitant downward pressure on wages during most of their working years.

Trends in Pension Participation. Pension participation of privately employed persons grew rapidly from World War II into the 1960s. It then leveled off during the 1970s and declined slightly from 1979 to 1983. The decline was undoubtedly influenced by lingering effects of the severe 1982 recession. Participation probably has risen slightly since 1983, and the long-term prospects are for no growth to modest growth.

The first CPS pension survey, which was conducted in 1972 and was confined to private-sector employees, found participation of full-time employees had reached 49 percent. The second survey, conducted in 1979, found that private-sector participation had risen only to 50 percent, despite several years of uninterrupted economic expansion. The third survey in 1983 found private-sector participation had declined to 47 percent.

Pensions spread among public employees earlier than among private employees, so the cresting of growth in private plans between 1972 and 1979 probably also occurred in the public sector. The 1979 survey found public-sector pension participation at 84 percent, a figure that probably was close to the 1972 rate as well. Public-sector participation declined by 1983 to 81 percent, about the same decline as experienced for private employees. For all employees, then, pension participation fell from 56.3 percent to 53.7 percent between 1979 and 1983.

The modest change in the private-sector participation rate during the last decade reflects offsetting trends. Pension participation has continued to grow in most industries, but this growth has been offset by the shift of employment to industries with low participation, such as services. For this reason, participation rates in both manufacturing and services have grown between 1972 and 1983 without increasing their combined participation. Participation in services grew exceptionally, from 30 percent to 36 percent. The combined participation rate, however, remained unchanged at 52 percent because employment shifted from manufacturing, where participation was higher to begin with, to services where participation is still lower (see Table 11). 6/

The modest change in the aggregate participation rate since 1972 also masks an increase in participation by women, which in the private sector rose from 37 percent in 1972 to 40 percent in 1979 and to 41 percent in 1983 in spite of the recession (see Table 12). Participation by men in the private sector rose slightly from 1972 to 1979 and then fell in 1983. When public-sector employment is included for 1979 and 1983, the women's participation rate holds constant while the men's falls. The decade-long upswing in women's participation probably reflects the movement of women into better paying and permanent jobs. Their relative success since 1979 probably also reflects their greater concentration in services, compared with men's concentration in manufacturing.

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6. Sharp declines in pension participation rates have been registered in a few industries. Between 1979 and 1983 pension participation dropped by seven percentage points in construction, four percentage points in wholesale, and three percentage points in both transportation and public employment. The declines are probably a result of recessionary pressures and unique circumstances. For example, construction and transportation have experienced rapid shifts toward nonunion employment, accompanied by deregulation in the case of transportation. Government has experienced rising use of temporary employees in part because of tax and spending limitations. See Andrews, *Changing Profiles of Pensions*, pp. 105-132, for further details on industry trends.

Since the CPS in May 1983, aggregate pension participation has risen probably because of the economic recovery. The overall gain has been probably slight, though, for two reasons: because the prerecession level observed in 1979 was only two to three percentage points higher, and because surging imports have limited the recovery in manufacturing--which in normal expansions includes a high proportion of new employees in pensions.

The longer-run outlook is for no or modest growth in pension participation. A continued shift of employment from high- to low-participation industries could offset pension growth within industries. Also, legislative restrictions enacted in the 1970s and early 1980s may have permanently slowed the formation of new plans. Declines in new plan formation were evident after passage of ERISA in 1974 and TEFRA in 1982. The Tax Reform Act of 1986, however, has provisions that on balance could

TABLE 11. PARTICIPATION IN PENSIONS BY FULL-TIME EMPLOYEES IN MANUFACTURING AND SERVICES (In percent)

	1972		1979		1983	
	Participation Rate	Share of Employment	Participation Rate	Share of Employment	Participation Rate	Share of Employment
Manufacturing	62	37	65	34	64	30
Services	30	17	36	19	36	23
Both Combined	52	54	55	53	52	53

SOURCES: Data for 1979 and 1983 from Congressional Budget Office tabulations of the May 1983 Current Population Survey and the May 1979 Current Population Survey of the Bureau of the Census. Data for 1972 from tabulations of the April 1972 Current Population Survey taken from Walter W. Kolodrubetz and Donald M. Landay, "Coverage and Vesting of Full-Time Employees Under Private Retirement Plans," *Social Security Bulletin*, vol. 44 (July 1981), pp. 3-11, with percentage participating adjusted to reflect those responding.

NOTE: Participation rates refer to percentages of employees participating in pensions. Share of employment refers to the share of manufacturing and services in total full-time employment.

either increase or curtail pension participation. On the other hand, as the baby boom generation ages, participation could grow modestly.

Participation in Keoghs

Over 9 million people were counted by the CPS as unincorporated self-employed in May 1983, and 450,000 of these, or 5 percent, had Keogh plans--dramatically lower than the 54 percent pension participation rate

TABLE 12. CHANGES IN PENSION PARTICIPATION FROM 1972 TO 1983, BY SEX AND BY SECTOR OF EMPLOYMENT, FOR FULL-TIME EMPLOYEES

	Percent Participating		
Employee Group	1972	1979	1983
	Private Sector		
All Employees	49	50	47
Men	54	55	51
Women	37	40	41
	Public and Private Sectors		
All Employees	n.a.	56	54
Men	n.a.	61	57
Women	n.a.	49	49

SOURCES: Data for 1979 and 1983 from Congressional Budget Office tabulations of the May 1983 Current Population Survey and the May 1979 Current Population Survey of the Bureau of the Census. Data for 1972 from tabulations of the April 1972 Current Population Survey taken from Walter W. Kolodrubetz and Donald M. Landay, "Coverage and Vesting of Full-Time Employees Under Private Retirement Plans," *Social Security Bulletin*, vol. 44 (July 1981), pp. 3-11, with percentage participating adjusted to reflect those responding.

NOTE: n.a. means not available. The pension supplement to the 1972 Current Population Survey was restricted to private-sector employees.

found among full-time employees. The actual difference must be even greater because the survey asked only if the person had a Keogh account, not whether a contribution had been made in the current year.

Several explanations have been offered for the lower participation among the unincorporated self-employed. One is that they often invest their retirement savings in the business, which can eventually be sold to finance retirement. Another explanation is the complexity of maintaining a Keogh plan for one or a few persons. IRAs are simpler; as documented below, they are three times as common as Keoghs among the unincorporated self-employed.

IRA Participation

The number of tax returns reporting IRA contributions more than quadrupled between 1981 and 1984 (see Table 13). Most of the increase came in 1982, the first year eligibility was expanded to those already participating in an employer pension or Keogh plan. In 1981, 3.4 million returns reported IRA contributions; in the following three years, the number rose to 12.0 million, 13.7 million, and 15.2 million.

The expansion of IRA eligibility in 1982 approximately doubled the population eligible for an IRA because about half of the employed population participates in a pension. The quadrupling of IRAs after eligibility doubled

TABLE 13. TAX RETURNS REPORTING CONTRIBUTIONS

Year	Reporting Wage and Salary Income (millions)	Reporting IRA Contributions (millions)	(percent)
1981	84.2	3.4	4.1
1982	83.1	12.0	14.5
1983	83.3	13.7	16.5
1984	85.9	15.2	17.7

SOURCE: U.S. Department of Treasury, *Statistics of Income*.

shows that those already participating in pensions were much more likely to open IRAs than were others. Apparently, participation in an employer pension is an indicator of interest in tax-favored retirement savings. Since pensions provide little flexibility to individuals in the amount they can accumulate this way, those preferring to accumulate more were able to do so when IRAs became available. The IRAs also had features--immediate vesting, portability, and greater flexibility in access to savings--that made them attractive to those disinclined to lock additional saving into a pension plan.

IRAs have been more common among higher-income people because people with higher incomes tend to save more, and because the income-tax advantage of IRAs rises with marginal tax rates. In addition to these similarities between IRAs and pensions, people newly allowed to use IRAs were permitted to transfer existing assets into IRAs, and higher-income (and older) people are more likely to have accumulated assets to transfer.

In 1982, when 14.5 percent of all returns with wage and salary income reported an IRA contribution, only 3.1 percent of those with adjusted gross incomes below $15,000 reported an IRA contribution, compared to almost half of the those with adjusted gross incomes between $40,000 and $75,000 (see Table 14). The pattern for contributions in 1983 and 1984 was similar.

TABLE 14. INCIDENCE OF IRA CONTRIBUTIONS BY ADJUSTED GROSS INCOME IN 1982

Adjusted Gross Income Class (dollars)	Returns Reporting Wage and Salary Income (millions)	Returns Reporting IRA Contributions (millions)	Returns Reporting IRA Contributions (percent)
All Classes	83.1	12.0	14.5
Under 15,000	41.1	1.3	3.1
15,000 - 25,000	17.3	2.2	12.7
25,000 - 40,000	16.4	4.1	25.3
40,000 - 75,000	7.1	3.5	48.8
Over 75,000	1.2	0.9	76.3

SOURCE: U.S. Department of Treasury, *Statistics of Income*.

Thus data from tax returns indicate that IRA participation has been highest among those who will be limited to nondeductible IRAs beginning in 1987. As noted in Chapter II, the Tax Reform Act of 1986 phases out the IRA deduction for higher-income people with pensions. If 1983 patterns of IRA contribution and participation were continued into 1988 without tax reform, CBO projects that 16.6 million tax returns would report contributions to an IRA. On this assumption, tax reform would make 40 percent of the returns ineligible for any deduction and leave 12 percent eligible for reduced deductions. Only 48 percent would remain eligible for full deductions (see Table 15).

Although IRAs have been used at higher rates by higher-income people, in some ways they have been less important to the highest-income people than to middle-income people. The $2,000 contribution limit has meant that an IRA contribution becomes a smaller and smaller percentage of a person's income at higher income levels even though more and more people use them. Thus, on net, IRA contributions in 1982 were a smaller percentage of income among all taxpayers with income in excess of $75,000 than among all taxpayers with income between $25,000 and $75,000.

Comparing IRA and Pension Participation Rates

As with pensions, participation in IRAs increases with age and earnings. The patterns, however, differ. In the case of IRAs, participation rises from 3 percent under age 25 to 19 percent for ages 35-44, and 39 percent for ages

TABLE 15. IMPACT OF TAX REFORM ON TAXPAYERS WITH IRAs IN 1988

	Status of Contributions Under Tax Reform			
Taxpayers	Fully Deductible	Partially Deductible	Not Deductible	Total
Millions	8.0	2.0	6.6	16.6
Percent	48	12	40	100

SOURCE: Congressional Budget Office.

TABLE 16. PENSION AND IRA PARTICIPATION OF FULL-TIME EMPLOYEES, BY AGE

Age	Participating in Pension (percent)[a]	Having An IRA (percent)[b]
All Ages	54	18
14 - 24	26	3
25 - 34	52	11
35 - 44	63	19
45 - 54	65	30
55 - 64	66	39
65 and Over	39	27

SOURCE: Congressional Budget Office tabulation from the May 1983 Current Population Survey of the Bureau of the Census.

a. From Table 7.

b. The percentage of persons not knowing whether they had an IRA was well under one, so the percentage not having an IRA can be closely approximated as one hundred minus the percentage having an IRA.

55-64. This steady growth contrasts with pension participation, which reaches a plateau of 62 percent to 66 percent for ages 35-64. Because pensions reach their maximum participation rate earlier, the gap between pension and IRA participation is greatest before age 55 (see Table 16). [7]

Within age groupings, the percentage having an IRA rises throughout the income distribution. In contrast to pension participation, which levels off at incomes above $20,000, IRA participation grows steadily (see Table 17). In the younger age group shown in the table, the percentage having an

7. The data for comparing IRA and pension participation, provided by the May 1983 Current Population Survey, are not entirely satisfactory. One reason is that the survey fails to distinguish between people having an IRA and those currently contributing to one. Pension participation, on the other hand, refers only to the situation on the current job. Another problem, mentioned earlier, is the underreporting of income other than that from wages and salaries. Because of this problem, the CPS tabulations on IRAs use earnings rather than income, as was done with the earlier pension tabulations.

IRA rises from 5 percent for those earning under $10,000 to 10 percent for those earning $15,000 to $20,000. It then jumps to 32 percent for those earning more than $35,000. In the older age group, IRA use is generally

TABLE 17. PENSION AND IRA PARTICIPATION OF FULL-TIME EMPLOYEES, BY AGE AND EARNINGS GROUPS

Earnings Group (thousands of dollars)	Participating in Pensions (percent)[a]	Having an IRA (percent)[b]
All Employees	54	18
	Ages 25-34	
Under 10	24	5
10 - 15	47	6
15 - 20	60	10
20 - 25	68	12
25 - 35	67	20
Over 35	71	32
All	51	11
	Ages 45-64	
Under 10	34	15
10 - 15	57	21
15 - 20	71	32
20 - 25	80	32
25 - 35	82	45
Over 35	85	63
All	63	33

SOURCE: Congressional Budget Office tabulation from the May 1983 Current Population Survey of the Bureau of the Census.

a. From Table 8.

b. In these age groups, essentially all respondents knew if they had an IRA.

higher but shows the same steady growth with earnings--rising from 15 percent for those earning under $10,000 to 32 percent for those earning $15,000 to $20,000 and to 63 percent for those earning above $35,000.

The greater concentration of IRAs than pensions among older and higher-paid employees probably results from several influences. One is that a pension, by including most of a firm's employees, probably extends retirement savings to younger ages and lower incomes than people themselves would choose. Another factor is the newness of IRAs. As noted earlier, much of the surge in IRAs in 1982 and 1983 probably resulted from the transfer of existing assets into IRAs; older and higher-paid employees were the most likely to have had such assets to transfer. Another influence is the use of IRAs as supplemental retirement savings for those with pensions. Older and higher-paid people are more likely to engage in additional retirement saving beyond that provided through their pensions, while younger and lower-paid people are more likely to satisfy their retirement saving needs with their pensions. In other words, the previous existence of pensions when IRAs were introduced may have shifted the use of IRAs toward older and higher-paid employees.

Employees Having Both Pensions and IRAs. In May 1983, 12 percent of all full-time employees had both an IRA and a pension. They comprised 23 percent of all pension participants. In contrast, 5 percent had only an IRA, or just 13 percent of those without a pension. So after 17 months of being eligible, pension participants were more likely to have an IRA than non-participants who had been eligible since 1974. In spite of the rapid growth of IRAs, however, pensions remain the only tax-favored saving for 40 percent of all full-time employees. As suggested by results reported earlier, the joint use of pensions and IRAs rises sharply with age and earnings (see Table 18 for details).

Employees Having Neither Pensions nor IRAs. By the same token, employees with neither pensions nor IRAs were heavily concentrated among the lower-paid. Among employees earning less than $15,000, roughly 50 percent of those age 25 to 34 and about 40 percent of those age 45 to 64 were uncovered. Among those paid under $15,000, the percent having only an IRA was much smaller than the percent having nothing. Among those age 45 to 64, who are paid over $25,000, however, the percent with only an IRA exceeded the percent uncovered.

The absence of IRAs among lower-paid employees without pensions suggests that most of them prefer to consume as much of their current earnings as they can. If so, they might also be uninterested in pension coverage if their employers were to reduce their pay to cover pension costs.

TABLE 18. PENSION AND IRA PARTICIPATION, BY AGE AND EARNINGS GROUPS

Earnings (thousands of dollars)	Full-Time Employees (millions)	Having Pension Only (percent)	Having IRA Only (percent)	Having Both (percent)	Having Neither (percent)	Do Not Know (percent)
All Employees	74.6	40	5	12	34	7
			Ages 25-34			
Under 10	3.9	21	2	3	60	14
10 - 15	5.8	44	3	3	42	8
15 - 20	4.7	54	4	6	31	5
20 - 25	3.8	59	3	9	24	4
25 - 35	2.8	54	7	13	22	4
Over 35	1.0	48	7	23	17	5
All	22.0	45	4	6	36	7
			Ages 45-64			
Under 10	3.1	27	9	6	50	8
10 - 15	4.4	44	8	13	30	5
15 - 20	3.6	50	10	21	15	4
20 - 25	3.1	53	6	26	11	3
25 - 35	2.8	45	8	36	7	2
Over 35	2.1	30	8	54	5	2
All	19.2	40	9	23	21	4

SOURCE: Congressional Budget Office tabulation from the May 1983 Current Population Survey of the Bureau of the Census.

NOTE: Age group data exclude those not reporting their earnings. The percentage having only an IRA and the percentage having both an IRA and participating in a pension can add to less than the percentage having an IRA in Table 16. Those having an IRA but uncertain about their pension status are classified as "Do Not Know" in this table. No corresponding difference occurs for pension participation because so few of those having pensions are uncertain whether they have an IRA.

Pension and IRA Participation by Spouses

Married persons normally plan for retirement as couples. Hence it may be misleading to focus on individual pension and IRA coverage. An employee with neither a pension nor an IRA may be counting on a spouse's retirement coverage. Another who participates may have a spouse who does not. Both couples are in a similar position even though the individuals examined differ in their coverage. In still a third situation, a participating employee may have a spouse who is also covered; while this third employee taken as an individual resembles the second, the couple's coverage could support a higher standard of living in retirement.

In fact, however, spousal participation is uncommon among those who do not participate themselves. 8/ Of the 4.1 million employees between the ages of 45 and 64 who participated in neither a pension nor an IRA in May 1983, only 19 percent had a participating spouse (Table 19). Thirty-two percent of them were single, and 44 percent had spouses who either worked full time without a pension or an IRA, or worked less than full time and did not receive pension income. Thus a large majority of the 4.1 million full-time employees without their own pension or IRA lacked retirement coverage through a spouse. (People of ages 45 to 64 are examined because employees not covered at these ages will have difficulty accruing substantial benefits before normal retirement age.)

Spousal participation is more common among employees who participate themselves. Three-fourths of full-time employees age 45 to 64 participated in a pension or IRA themselves, and one-third of these have a participating spouse.

The likelihood of having a participating spouse is not strongly related to an employee's own earnings. Employees identified in Table 18 as earning below $15,000 are slightly more likely to have a participating spouse than those earning above $15,000, whether the comparison is among participating or nonparticipating employees (see Tables 19 and 20).

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8. In this context spousal participation means participating in a pension plan as defined above, receiving pension income, or having an IRA. Receiving pension income is included because one spouse may already be retired even though the other is still employed full time.

TABLE 19. SPOUSE BENEFITS AMONG FULL-TIME EMPLOYEES AGE 45 TO 64 NOT PARTICIPATING IN A PENSION OR IRA, BY EARNINGS GROUPS

Earnings Group (thousands of dollars)	Number of Employees (millions)	Spouse Employed Full Time and Participating in Pension[a] or IRA (percent)	Spouse Not Employed Full Time or Not Participating in Pension or IRA (percent)	No Spouse (percent)	Spouse Status Not Known (percent)
All	4.1	19	44	32	6
Under 15	2.9	20	42	35	4
Over 15	1.3	18	48	25	9

SOURCE: Congressional Budget Office tabulation from the May 1983 Current Population Survey of the Bureau of the Census.

a. Includes spouses receiving pension income in 1982.

TABLE 20. SPOUSE BENEFITS AMONG FULL-TIME EMPLOYEES AGE 45 TO 64 PARTICIPATING IN A PENSION OR IRA, BY EARNINGS GROUPS

Earnings Group (thousands of dollars)	Number of Employees (millions)	Spouse Employed Full Time and Participating in Pension[a] or IRA (percent)	Spouse Not Employed Full Time or Not Participating in Pension or IRA (percent)	No Spouse (percent)	Spouse Status Not Known (percent)
All	14.4	33	42	21	3
Under 15	4.2	37	29	29	5
Over 15	10.1	32	48	18	2

SOURCE: Congressional Budget Office tabulation from the May 1983 Current Population Survey of the Bureau of the Census.

a. Includes spouses receiving pension income in 1982.